

**2011 - 2012 Statement of Legislative Intent****Approved**

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142	2	A	1

**Budget Action Title:** Policy Direction for Debt-Financed Municipal Energy Retrofit Projects

**Councilmembers:** Budget Committee

**Staff Analyst:** John McCoy

**Budget Committee Vote:**

Date	Result	SB	BH	SC	TR	JG	NL	RC	TB	MO
11/12/2010	Pass 9-	Y	Y	Y	Y	Y	Y	Y	Y	Y

**Statement of Legislative Intent:**

The Proposed 2011-2012 Budget includes approximately \$6.2 million for energy retrofit projects that aim to lower electricity use in municipal facilities. Approaches include changing light fixtures to more energy-efficient alternatives and installing updated heating and air conditioning control systems. The projects are proposed to be financed with Limited Tax General Obligation (LTGO) debt, specifically through Seattle's allocation of federal Qualified Energy Conservation Bonds (QECBs), which offer low interest rates.

The projects involved are:

Department	Project Title	Project ID	2011 Allocation	2012 Allocation
Parks and Recreation	Municipal Energy Efficiency Program - Parks	K732433	\$478,000	\$0
Seattle Center	Municipal Energy Efficiency Program	S1003	\$510,000	\$0
Finance and Administrative Services	FAS: Municipal Energy Efficiency Projects	A1GM199	\$692,000	\$4,200,000
Total*			\$1,680,000	\$4,200,000

\* CIP totals do not include approximately 3% cost of debt issuance.

Central Staff analysis of the project list for 2011 – which includes 36 specific facility retrofits in the three departments above – finds that the proposed portfolio may not meet the spirit of the City's LTGO debt policy, as memorialized in Resolution 30345. The debt policy states that funding sources other than debt should be considered first, and LTGO debt should only be used if the project achieves "positive net revenues after debt service . . . over the life of the debt . . . and on annual basis within the first five years after completion of the project." Similarly, the policy states that projects aimed at driving cost savings should achieve them within the first five years. While the

policy does go on to make exceptions for projects under \$10 million, the intent is clear that the economic payoff period of projects financed with debt should be short, as a safeguard against more speculative investments and to provide a clear margin of safety for the General Subfund's ability to pay.

In this context, the Council requests that Finance and Administrative Services (FAS), the City Budget Office, and the Office of Sustainability and Environment (OSE) work to improve the 2011 project list before proceeding and substitute some of the more marginal retrofits featuring long payback periods with others exhibiting better economic performance. The goal is for the 2011 project list to comply with the intent of LTGO debt policy, achieving positive net revenues within 5 years, to the extent possible, and in all cases over the life of the debt.

In addition, by June 1, 2011, Council requests that OSE and FAS provide an economic analysis of the forthcoming 2012 project list that includes the following features:

- The specific assets being installed in City facilities;
- The useful life of the assets being installed, noting any cases where the useful life of the asset exceeds the expected useful life of the facility into which it is being installed;
- The energy use reductions and dollar savings expected from the retrofits, including how the projects will satisfy the Internal Revenue Service's 20% energy reduction requirement for QECB financing;
- The capital costs incurred, including interest and debt issuance costs;
- The utility rate increase assumption used in the multi-year savings projections;
- Over what period each individual project and the portfolio as a whole will recover their capital and debt service costs;
- The net present value of each project and the portfolio as a whole;
- Any other quantified or unquantified positive externalities that the projects generate, such as aesthetic improvements or carbon emission reductions via increased wholesale power sales at Seattle City Light.

**Responsible Council Committee(s):** Finance and Budget

**Date Due to Council:** June 1, 2011